CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 2, 2002

H.R. 5385

Miscellaneous Trade and Technical Corrections Act of 2002

As ordered reported by the House Committee on Ways and Means on September 18, 2002

SUMMARY

H.R. 5385, the Miscellaneous Trade and Tariff Act of 2002, is an omnibus trade bill that would reduce receipts through various changes to existing trade law, including the suspension or reduction of duties on specific products, the refund of already settled duties paid on certain entries (reliquidation), and the refund of duties paid on certain imported merchandise upon destruction or exportation (drawback). In addition, H.R. 5385 would authorize the President of the United States to extend normal trade relations (NTR) to Yugoslavia and permit the designation of qualified industrial zones (QIZs) in Turkey. The Congressional Budget Office (CBO) estimates that H.R. 5385 would decrease governmental receipts by $82 million in 2003, by $272 million over the 2003-2007 period, and by $397 million over the 2003-2012 period.

By requiring that certain wine importers certify to the Bureau of Alcohol, Tobacco and Firearms (ATF) that their imports meet U.S. standards for wine-making, H.R. 5385 would impose a private-sector mandate as defined in the Unfunded Mandates Reform Act (UMRA). Based on information from the ATF and industry sources, CBO expects that costs imposed on wine importers resulting from the mandate would fall well below the annual threshold established in UMRA ($115 million in 2002 for private-sector mandates, adjusted annually for inflation).

H.R. 5385 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The following table summarizes the estimated budgetary impact of H.R. 5385.

	By Fiscal Year, In Millions of Dollars									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CHANGES IN REVENUES										
Estimated Revenues										
Title I: Tariff Provisions										
Subsection A										
New duty suspensions and reductions	-34	-34	-31	-15	-7	-1	*	*	*	*
Extensions of suspensions and reductions	-8	-8	-8	-4	-1	0	*	*	*	*
Subtotal	-41	-43	-39	-18	-8	-2	*	*	*	*
Subsection B										
Duty-free treatment for handmade rugs	-6	-5	-6	-7	-2	0	0	0	0	0
Unused merchandise drawback	-31	-8	-8	-8	-8	-9	-9	-9	-9	-9
Other provisions	-2	-1	-1	-1	-1	*	*	*	*	*
Subtotal	-40	-15	-15	-17	-11	-9	-9	-10	-10	-10
Title II: Other Trade Provisions										
NTR for Yugoslavia	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Turkey QIZ	0	0	-2	-7	-12	-13	-13	-14	-14	-15
Total Changes in Revenue	-82	-58	-57	-43	-32	-25	-24	-25	-25	-26

NOTES: * = Less than $500,000.
Components may not sum to total due to rounding.

SOURCE: Congressional Budget Office.

Revenues

Title I of the bill would reduce or suspend the duties on various products imported into the United States, and provide additional tariff relief through reliquidation and drawback. Duties on over 250 intermediary products would be suspended or reduced by subsection A. These products include certain chemical compounds, machinery, tools, and toys. The bill would temporarily extend some duty suspensions and reductions that existed in prior law that are set to expire. Most of the extensions would be through December 31, 2006. Based on information from the U.S. International Trade Commission (ITC), CBO estimates that these extensions would reduce revenues by $29 million between the years 2003 and 2007. In addition, subsection A would suspend or reduce the duties on numerous other products. CBO estimates that these provisions would decrease revenues by $121 million over the 2003-2007 period. (Most of the suspensions and reductions would be effective through December 31, 2006.) In total, CBO estimates subsection A would reduce governmental receipts by $41 million in 2003 and by $150 million over fiscal years 2003 through 2007, net of income and payroll tax offsets.

Subsection B of Title I would liquidate or reliquidate certain entries of goods imported into the United States, effectively providing refunds of duties paid on previously imported products. CBO estimates these provisions would reduce governmental receipts by about $1 million in fiscal year 2003. Subsection B also contains several miscellaneous trade provisions that would have a more significant impact on revenues. Section 1606, which would extend duty-free treatment under the Generalized System of Preferences to certain hand-knotted or hand-woven carpets, would reduce receipts by an estimated $27 million over the 2003-2007 period, net of income and payroll tax offsets. Section 1607, which would allow for retroactive duty drawback of unused merchandise under section 1313(j) of the Tariff Act of 1930, would reduce revenues by an estimated $31 million in 2003 and $63 million over the 2003-2007 period, net of income and payroll tax offsets. In total, CBO estimates that the provisions contained in subsection B would reduce governmental receipts by about $98 million over the 2003-2007 period, net of income and payroll tax offsets.

Title II of H.R. 5385 would authorize the President of the United States to extend normal trade relations to Yugoslavia and permit the U.S. Trade Representative (USTR) to designate certain zones in Turkey as qualified industrial zones. U.S. imports from these zones would receive duty-free treatment so long as production of the goods included a significant amount of value added in such zones in Israel. CBO assumes that if given the authority, the President would extend NTR status to Yugoslavia and estimates that doing so would decrease revenues by about $5 million over the 2003-2007 period, net of income and payroll tax offsets. CBO estimates that expanding the QIZ initiative to include Turkey-Israel QIZs would have a negligible effect on governmental receipts in 2003 but would reduce collections by $20 million over the 2003-2007 period and by $89 million over the 2003-2012 period, net of income and payroll tax offsets. Title II also would require that certain importers of wine certify that their imports meet U.S. wine-making standards. Based on information from the Joint Committee on Taxation (JCT), CBO estimates that any effect on revenues would be negligible.

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that H.R. 5385 will be enacted early in fiscal year 2003. Estimates of the revenue impact of suspending or reducing duty rates are based on data from the ITC. Estimates of the duty drawback provision are based on data from the U.S. Customs Service on drawback collections and CBO's projections for future customs collections. The estimates of the impact of granting Yugoslavia normal trade relations are based on current import data and CBO's projection of non-petroleum imports. Estimates pertaining to Turkey-Israel QIZs are based on information from the Office of the USTR and the ITC on the impact of Jordan-Israel QIZs on Jordanian production and U.S. governmental receipts. JCT provided information regarding the provision on proper certification of certain imported wine. The remaining revenue provisions in H.R. 5385 are based on estimates provided by the ITC and the U.S. Customs Service, on recent data on the collections of customs duties, and on information from various industry sources. Consistent with standard procedures for estimating the revenue impact of indirect business taxes, the gross revenue impact on customs duties is reduced by 25% to reflect offsetting effects on income and payroll tax receipts.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 5385 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

Beginning on January 1, 2004, section 2003 of H.R. 5385 would require that certain wine importers certify to the ATF that the wine they import meets U.S. standards for wine-making. Such a requirement would constitute a private-sector mandate as defined by UMRA. Certification would not be required for wine imported from countries that have signed an international agreement or treaty recognizing U.S. wine-making standards. According to the ATF, several wine-exporting countries have signed such an agreement and are scheduled to ratify the agreement prior to the date this provision would take effect. In addition, the bill would allow wine importers affiliated with a U.S. winery that operates under a basic permit to self-certify. Industry and ATF sources indicated that a significant portion of importers would qualify for self-certification. Finally, according to ATF and industry sources, the certification process would not impose significant costs on the affected wine importers. Based on the foregoing information, CBO concludes that the cost of this private-sector mandate would fall well below the annual threshold established in UMRA ($115 million in 2002, adjusted annually for inflation).

ESTIMATE PREPARED BY:

Impact on Federal Revenues: Annie Bartsch
Impact on the Private Sector: Lauren Marks

ESTIMATE APPROVED BY:

Tom Woodward
Assistant Director for Tax Analysis